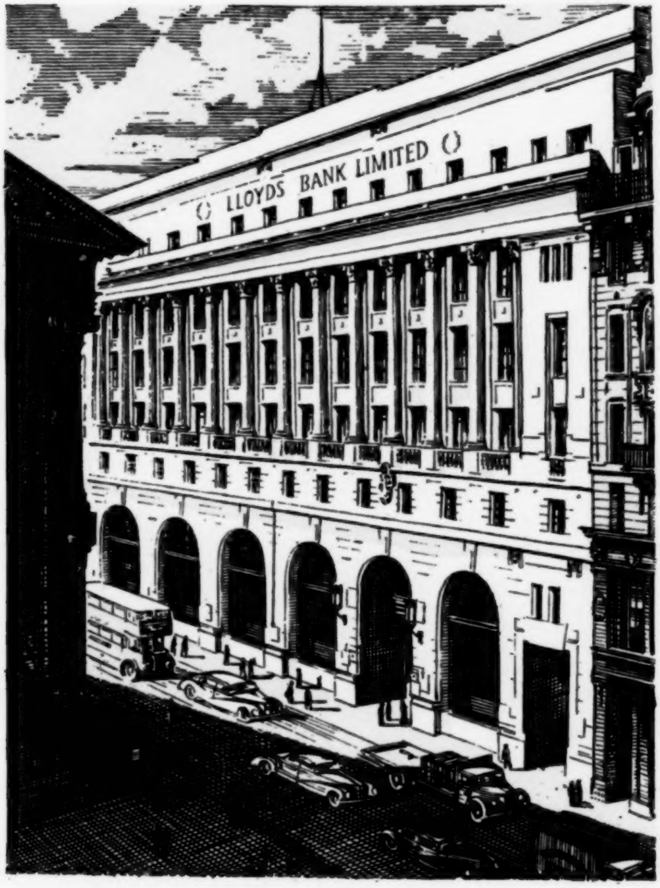


Lloyds Bank Review

JULY 1957

Lloyds Bank Review

Editor: W. Manning Dacey

New Series JULY, 1957 No. 45

CONTENTS

The Bank is not necessarily in agreement with the views expressed in articles appearing in this Review. They are published in order to stimulate free discussion and full inquiry.

Britain Revisited

By Sir Sydney Caine

I have lived away from England for eight years; not entirely out of touch, but still not in touch as a resident is. What are the impressions of the economic situation on becoming a U.K. resident again?

Some superficial impressions are obvious; the rise in prices; the virtual absence of observable unemployment; the amount of new building of all sorts; the material well-being of the vast majority; and the general atmosphere of somewhat placid contentment, very mildly ruffled by the temporary tribulations of petrol rationing. Nor are these superficial impressions belied by the more objective evidence of statistics. The cost of living has risen 48 per cent. since 1948. The percentage of unemployment is still among the lowest in any industrial country and jobs vacant still about equal the number of persons unemployed. Indices of physical consumption bring out clearly the amount the public has to spare for tobacco, television, washing-machines and holidays, while indices of production bring out the productive basis for this rising consumption. Official figures suggest a rise in total real wages and salaries of over 30 per cent. since 1948.

Looking back, say, to 1948, most of these things are not new; but there is a different flavour to them. Prices then had risen, but the rise was partly masked by rationing and food subsidies and people cherished a hope that this was a definitive rise "due to the war" and that a new stability had been or was being established. There were equally few unemployed and it was recognized that (rationing aside) most people were materially better off; but many still feared that this was another temporary phenomenon. Perhaps the sharpest change is in the building situation. In 1948, effort was still concentrated on the remedying of the most obvious deficiencies left by war-time damage and neglect. In 1957, much more can be spared for new building of a general character. Generally, the distinct aspect of 1957 is that the world of rising productivity, rising consumption and rising prices which has now existed for over

---

Sir Sydney Caine, Director of the London School of Economics, was previously Vice-Chancellor of the University of Malaya, after retiring from a distinguished career in the Civil Service in 1951.

a decade looks like something permanent and not just a chance result of special circumstances.

Two reflections illustrate this state of affairs. "Social work" is no longer obsessed with the relief of stark poverty and is therefore free to devote time to the social misfits, to problems of child guidance and mental health, while at the same time internal political programmes are much more concerned with long-range pension problems, next year's wages and so on than with a burning urge to right any existing scandals. Social administrators and politicians alike are tending, tacitly at least, to assume that the problem of poverty (in its pre-twentieth century or Asian sense) has been solved—just as the problem of epidemic disease has been solved—depending in both cases on continued good administration.

If there is nothing strikingly new about the economic facts, there does appear very much of a new look about many aspects of policy. There seems to be going on a whole series of re-appraisals, agonizing or otherwise. It is only when one sits back to take stock that one appreciates how great the changes are. On the external side the obvious things are the lower intensity of apprehension about the external balance; the speeding up of the liquidation of former Colonial positions; the adoption of a new and cheaper Defence policy; a dawning realization that the Suez Canal is not so vital after all; and the projected European Free Trade Area. The internal re-appraisals are less dramatic and have gone much less far, but they include at least the realization that the Welfare State has not solved either the problem of labour relations or the problem of wages, and the first moves towards a remodelling of the tax system.

* * *

These, and other new attitudes, deserve examination one by one, although they may prove to be closely connected. The change which has come about imperceptibly and undramatically in the state of national fever about the external balance is in many ways the most typical. In its broad aspects the picture of the U.K.'s balance of payments is not very different from what it was eight years ago. The balance calculated on the orthodox official basis still swings fairly widely between a sizeable surplus one year and a sizeable deficit the next. It is still true that the swings are largely matched by changes in stocks rather than in utilization of goods. The sterling holdings of other countries go up and down but in total still add up

to very much the same kind of figures as they did, say, in 1948. The gold and dollar holdings also go on fluctuating around the same kind of average—an average universally regarded as inadequate. Two things are different: first, those people who think about these phenomena (always a tiny minority) are much less immediately apprehensive about their meaning; and, secondly, far fewer people expect the external problems to be neatly and quickly solved by some trick of policy in the external field, whether it be exchange manipulation or a new export drive, while far more appreciate that the long-term solution lies in internal policies. Trivial though it is in financial effect, perhaps the clearest sign of the new look in exchange policy is the Chancellor's recent concession of a dollar holiday allowance.

The relative unconcern about the external position is striking when one makes a little comparison of figures. At the low point just before devaluation in September, 1949, the U.K. gold and dollar holdings were $1,340 millions, equivalent at the old U.S. dollar rate to 13 per cent., and at the new dollar rate to nearly 19 per cent., of the total debits to the U.K's current account in the orthodox balance of payments statement for 1949. In November last the gold and dollar holdings dipped to $1,965 millions, equivalent to 15½ per cent. of the corresponding total in the 1956 statement. By the end of May, 1957, the reserves had recovered to $2,345 millions; but meanwhile a waiver had been obtained in respect of the interest of $104 millions due on the North American loans at the end of 1956, and the reserves had been reinforced by the drawing of $561 millions from the I.M.F. When these special factors are taken into account, what may be called the reserve ratio of the U.K. and the sterling area is just about as low as ever in the post-war period.

There are indeed other reasons for concern about the comparative external position of the U.K. In 1948, and for a year or two afterwards, we could feel that we were moving ahead faster than our European neighbours; today that is no longer true. The figures in the table on p. 4 speak for themselves. Secondly, although expressed anxiety about the possible burden of the liquidation of sterling balances has declined, there is in fact as much reason as ever for such anxiety. The "blocked" balances of the war have been largely worked off and much more of current holdings are "free" post-war accumulations; the need of India to use her balances to finance the external deficit associated with her development programme is acutely clear; and the increase in the Colonial balances which for years offset withdrawals by other holders seems to have

ceased. After rising from about £400 millions in 1945 to £1,400 millions in 1954, the balances of the colonial group have remained steady for two years, and it is only too probable that some of those territories which are ceasing to be Colonial will before long want to draw upon these reserves.

If, in spite of these background facts and the formal weakness of the position due to the relaxation of controls in the move towards convertibility, there is less apparent concern about the external position it is, I believe, due to the rediscovery of the true doctrine that it is in the end confidence which maintains any currency, and that confidence depends on internal policy—on the over-all balance between production and consumption—and not on the manœuvres and tricks of exchange policy. It is a lesson which is being demonstrated constantly by the example of Western Germany, among others, on the Continent and by the varying fortunes of the newer nations of Asia.

Other facts reinforce this impression of a more inward-looking state of mind. The liquidation of the Empire proceeds

CHANGES SINCE 1948 IN THE U.K. AND OTHER COUNTRIES

	1955	1956		1955	1956
Output per head (in real terms)	*1948=100*		*Volume of Exports*	*1948=100*	
U.K.	120	122	U.K.	135	143
Germany	202	216	Germany (1)	260	300
France	142	148	France	275	250
U.S.A.	119	121	U.S.A.	111	130
			U.S.A. (2)	121	143
Cost of Living			*Capital Formation (Volume)*		
U.K.	138	145	U.K.	149	154
Germany	110	113	Germany	215	236
France	168	172	France	142	153
U.S.A.	111	113	U.S.A.	137	149

	1948	1955	1956
Capital Formation as % of Gross National Product	%	%	%
U.K.	13·3	16·2	16·5 est.
Germany	21·4 (3)	27·4	n.a.
France	19·4 (3)	19·9	n.a.
U.S.A.	17·2	18·5	n.a.
Gold and Dollar Reserves (4)	\$m	\$m	\$m
U.K.	2,151	2,600	2,807
Germany	179	2,374	3,327
France	794	1,957	1,506
U.S.A.	24,399	21,753	22,058

(1) 1950=100. (2) Including military aid. (3) 1949. (4) end of year, including short-term dollar holdings for U.K., Germany and France.

steadily; in varying forms and at varying dates, practical control has been or soon will be transferred to local hands in Ghana, Malaya, Singapore, Central Africa, Nigeria and the Caribbean. Soon, East Africa will be the only large Colonial area left. To the outside observer the impression cannot but be conveyed that the British people no longer want an Empire, that they are only anxious to find somebody who can be recognized with some plausibility as representative of the people and to whom power can be handed over—a carefully fostered federation as in the West Indies or Central Africa, or an elected government which has proved its capacity by keeping going for a year or so a machinery of government created by a non-local civil service.

Cyprus may appear as an exception to this ordered flight from Imperialism but an exception which proves the rule. In Cyprus a real difficulty is felt in the doubt whether any group exists which could maintain peace and order for a day if Britain withdrew. But in addition Cyprus is affected by the emotionalism which ever since the Crusades has from time to time overwhelmed British policy in what used to be called the Levant. Still more perhaps has it affected British attitudes towards the Arab States, Egypt and above all Suez. In the ambivalence which is natural to any "group mind", the tensions provoked by the combination of the general withdrawal psychology with the special emotional and politico-economic values of the Suez complex were resolved first by a burst of violent action and then by an internal moral revulsion.

* * *

Certainly, the attempted seizure and subsequent withdrawal from the Canal looks like being a decisive watershed in many fields of policy. So far as the Canal itself is concerned, there is a very natural re-appraisal of its status as a life-line, now that we see that we got on without it pretty well for over six months. On the military side, the episode undoubtedly brought to a head many previously felt doubts about the need for so large a defence personnel. Britain seems to have said to herself, adapting the old maxim, "If I can't behave like a giant, why maintain a giant's strength?" Less obviously, and with less explicit results, doubts must have grown in many quarters about the cash value of subsidies or other aid given to poor but highly nationalistic countries and about the value in a real crisis of the Commonwealth link. This is not to deny a very real element of altruism in the policy of aid to under-developed countries and of idealism in the maintenance

of the Commonwealth structure; but it is also foolish to ignore that the wide acceptance of both policies is due to the fact that some at least hoped that they would increase the number of our reliable friends in the world. The sum of all this is that the net opinion now crystallizing is that the far-flung Empire, even in its modern form of free association, matters less than it used to. It no longer seems so essential to our economic well-being; it demonstrably no longer provides a basis for military power; and it no longer looks worth making so great an effort to maintain.

These tendencies are reinforced by long-term technical and economic trends which appear to be making "complementary" trade between the developed and the under-developed less important. A number of formerly colonial products are in the physical sense far less essential than they were a generation ago because, like rubber, they can be synthesized or, like cinchona or tin, they can be replaced. The chemist and inventor are thus making certain traditional fields of international trade less vital and are encouraging us to do as psychological changes suggest and turn more to what we can do within our own confines. Another aspect of the same broad change is the increase in trade between industrialized countries. Less and less of international trade consists of an exchange of manufactured goods for raw materials and goods and more and more of it consists of exchanging one kind of manufactured goods for another. For the U.K. that means a shift in the balance of emphasis against Asia and Africa and in favour of Europe and North America.

It is in accordance with these changes of attitude that some kind of European free trade has, almost imperceptibly, become an accepted and respectable idea, a prospect over which a lot of people may pull wry faces when they think of the adjustments they may have to make but which nonetheless they are disposed to accept as at worst something inevitable and at best as a great new opportunity. Of course, any such scheme will involve problems *vis-à-vis* the Commonwealth and the Colonial dependencies, and those difficulties are sometimes a useful cover for hesitations based on other doubts; but the very willingness to weigh the Commonwealth association dispassionately against a closer association with Western Europe is a strong proof of a change in basic approach. The terms of British entry into any kind of free trade arrangement in Europe are obviously still subject to very much discussion, but clearly the whole field is one of the most important areas of current re-appraisal.

Another significant fact about the free trade area proposals is that the leaders of industry who are supporting or acquiescing in them appear to be doing so in full knowledge that the prospects of benefit from participation depend on the ability of British industry to hold its own in a keen but equal competition with the vigorous industries of our prospective partners. It is a healthy attitude in that it seems at last to be accepting the lesson that we cannot thrive for any long time on special markets, special export privileges, protection disguised as exchange control and all the rest of the tricks. We can only thrive if we can produce as well and as cheaply as our competitors and the apparent willingness to put that ability to the test is a very welcome sign of confidence.

* * *

I come therefore to the main point: that both our well-being and our greatness, in the sense of influence in the world, depend finally on what we do in our own country, not on external devices. Of course we need a large external trade for our well-being, but the fortunes of our foreign trade depend above all on our internal policies. Of course we may again build up an income from overseas investments, but to do that we must first build up a surplus to invest. Many rich men smoke cigars; but a poor man does not therefore become rich by smoking cigars; and it is beginning to dawn on people that the same is true of nations and external investment.

Turning therefore to domestic policy, let us look at the economy which has emerged from the legislative changes commenced in the generation before 1939, vastly accelerated during the war and consolidated after it. Its distinguishing characteristics are: a great equalization of net money incomes; an extension and consolidation of public provision for free education, for medical care and for maintenance in sickness, unemployment, widowhood and old age, which has brought those social services to a comprehensiveness equalled in few countries in the world; a very high level of employment; a level of taxation unprecedented in times of peace; an extension of State ownership and public operation of certain industries; a growth in productivity which is reasonably steady but generally believed to be slower than it could be; and a fall in the value of money which is still more steady and is universally believed to be a lot faster than it ought to be.

It is a world with which the average man and woman find much reason for contentment. The improvement in the lot of

the common man and the further prospect of equalization of incomes is shown by the fact that real wages per head in manufacturing industry appear to have risen between 1948 and 1955 by some 22 per cent., while real salaries per head rose about 7 per cent. For the traditional complaints about the hardships of the poor, the left-wing can substitute only tales of how dreadful things were in the 'thirties and predictions of how dreadful they will be again if Tory policies prevail. But although the worst evils of poverty may have been banished, clearly there remain deep discontents. It might seem at first sight that these discontents all relate to one facet or another of the problem of maintenance and distribution of real incomes. In fact I believe there are other issues, essentially psychological rather than national, which lie deepest; but it will be well to look a little at the various aspects of the problem of incomes.

Some people are beginning to be interested in the problems of inequality of welfare created by the very rules of the Welfare State itself—the inequalities between the occupant of a rent-controlled or subsidized house and the man who has to pay the market price, or the anomalies of educational grants. Nevertheless, interest centres on money incomes. Here we may distinguish three main forces of disturbance. First, there is the normal expectation of modern man (it has only prevailed for a generation or so but it is now well established) that Providence—or the modern equivalent, technological progress—will provide him automatically with a higher real income every year. Hence the conventional annual round of wage increases. Secondly, there is the struggle of everybody to keep up with inflation, of which more must be said later. And thirdly, there is the struggle of all those wage and salary-earners who have lost differential advantages in the process of equalization to get them back again, a sort of attempted economic counter-revolution by the professional classes and the skilled artisans. This is bound up with a certain reaction of theoretical thinking and a reversion to a belief in higher pay as a necessary incentive for some kinds of work.

Of course, these forces of disturbance do not act in isolation. Wage disputes at all levels may involve elements of all of them. The last increases in the salaries of the highest Civil Servants were clearly intended both to offset recent rises in general prices and to correct to some extent the longer-period deterioration in the relative income-position of Civil Servants. In the range of manual wages the comparison and inter-play is more complex. A wage claim may be justified on the plea of general increase in productivity, of rise in the cost of living,

of the need to restore a traditional differential by comparison with some lower-paid group or, contrariwise, of the need to catch up with an increase granted to a higher-paid group. The possibilities of vicious circles are obvious and well-known.

* * *

Such a situation is giving rise to much thinking on matters of wage policy—indeed, on the determination of incomes in general. How far are decisions by the government to go? Already, through the Civil Service, the doctors and all grades of teachers, the Chancellor of the Exchequer has an enormous say in settling the level of professional incomes, and he or his colleagues have at least a large back-room influence on manual wages through the nationalized industries. Ought the T.U.C. to have a policy? At the one extreme, ought the main lines to be agreed at the T.U.C.–F.B.I. level? Or would it be wiser at the other extreme to scrap national agreements and negotiate at firm or factory level? Even if wage increases are not the root cause of inflation, must they automatically follow price increases? Would it be better to relate wages to some index of productivity; if so, how is the index to be calculated: industry by industry or nationally? And in either event, how do we calculate the productivity of "industries" which the statisticians can only measure on a money basis, like the Post Office, whose statistical contribution to the national income was no doubt increased when postmen's wages went up recently and deliveries went down?

These are some among the questions people are asking. Underlying nearly all of them is one main issue: how far can we go in discarding the incentive element in incomes? This is partly but not wholly tied up with the issue of egalitarianism. The connection is most clear in the comparison of occupations, in the question of what extra income is necessary to persuade people to undertake the training or undergo the strain and anxiety associated with certain jobs. But there would still be problems of incentive if differentials between jobs were much smaller or altogether non-existent: there would still be the incentive to work more or less hard. Here the problem is whether to rely, say, on the personal incentive of the piece-rate or on the generalized incentive of a "productivity" bonus.

It is part of the wider problem of personal responsibility in a world in which technical change has blurred the individual contribution to production and in which social policy has

almost abolished the sanction of unemployment. The consequences of full employment policies are not, indeed, confined to manual workers. In formerly well-to-do circles it is common enough to deplore the ill-effects of the removal of the fear of unemployment, but little is said of the effects of removal of the fear of bankruptcy. Maybe there are too many workers who are so well organized that they cannot be sacked; but there are also too many firms who are so large that they cannot be allowed to fail. And, of course, for the nationalized industries failure is legally as well as socially impossible.

This impossibility of failure is linked with the widespread belief—I believe erroneous—that it is wage increases which cause inflation. Being based on national agreements, higher wages must apply to all firms equally; hence they cannot be found from profits because that would put the marginal firms so deeply in the red that they might have to close down; that being *ex hypothesi* impossible, prices must go up and more money must be created to support the higher prices. Anybody who hints that the process is only possible because the government is willing to go on creating more money can be dismissed theoretically as an out-of-date believer in the quantity theory and practically as a person who would actually let some firms close down and some workers lose their jobs.

*   *   *

But these are not the most fundamental and important aspects of this problem of personal responsibility and it is to be hoped that the talks between labour and management which the Prime Minister is promoting will not stop at an examination of wage policy. There is also a malaise in industry due to the absence of a feeling of personal participation in its processes. The earlier driving force of Socialism in industry was not just a desire for more wages or more equal sharing of the proceeds of industry; it was a desire also for a sharing in the control and management of industry.

Ideas of workers' control were no doubt crude and impracticable; and it was almost inevitable that socialization, so far as it has been carried out, has been in a State-socialist pattern. To the worker in the mine or on the railway, however, the change of management meant at most the substitution of one group of managers for another and more often the continuance of the same managers with new titles. Quite soon men were saying "There's still the ....boss". It was still no easier for the manual worker to move over into the managerial

class. (Possibly other social changes have made it easier for the manual worker's son to move over, but only through a channel of higher education which partly cuts him off from his origin.) Hence the disillusion with nationalization as a policy. Hence the present deadness of Labour Party thinking: so many of the objectives of fifty years ago achieved, and yet people feel themselves somehow cheated! Hence, in the practical world, the plethora of non-wage stoppages, the Briggs type of dispute about personal relationships, the attempt to build up the shop-steward system, the wooden and pathetic assumption that any strike against any employer deserves the support, at any cost, of every worker.

It is here, perhaps, that the greatest long-term threat to British prosperity lies, in the spreading belief that "They" will take all the awkward decisions, that burdens will always be passed on, that it is not merely harmless but almost a duty to obstruct and oppose "Their" activities. It is an attitude of mind for which economists are at least partly responsible. Understandably, in the conditions of the time, Keynesian economics took the mechanism of production for granted and concentrated on how to get it into high gear. It has been too easy to slip over into the assumption that improvements in efficiency will always take care of themselves, that there is a mystic dynamic force which can always be relied upon without human intervention. Probably nobody is bold enough to claim to know the secret of that dynamism. It is undeniable that it exists in societies as disparate as those of the U.S.A. and the U.S.S.R.; it is undeniable, too, that in many societies it is absent or very weak; and we are becoming aware that it cannot be assumed to continue irrespective of what social changes are made.

Contributing to the same general attitude is the old habit of thinking of industries as organized to provide jobs rather than to produce goods or services and—what might be called the entrepreneur's version of the same fallacy—the more sophisticated theory that, provided that producers all have large incomes, all must be well, since they are also consumers. Both attitudes, of course, ignore the content of production, and assume that the right things will get produced by some kind of magic without anybody having to think or to make adjustments to changing needs.

In another form of expression these are problems of incentive. How do we get people to work hard, to save, to do all the things that contribute to economic growth? And how also do we ensure that the energies and resources so produced

are directed to the right ends? Of course, these are the age-old problems of economics. All that is momentarily new is a fresh realization that they are problems not fully solved by our current economy. Hence the new searchings for incentives, tax-remissions, increased differentials and so forth.

* * *

Last to be mentioned among current topics of re-appraisal is that of inflation. The rise of prices is large enough to force itself on everybody's attention and sufficiently long-continued to lead most people to assume that it is going on indefinitely. Hence a special kind of mistrust of the currency is developing. There is nothing like the unwillingness to hold cash for even short periods which characterizes a pernicious inflation, but there is a very widespread disposition to scrutinize long-term money commitments. In the investment field, the change in the balance of preference between fixed-interest stocks and equities is obvious. Coupled with high taxation, expectations of inflation are leading the private investor to seek out investments that may yield little income now but a lot at a constantly receding date in the future. (This preference for pie in the sky suggests fascinating possible effects on the length of investment and production cycles.) In discussions of wages, pensions and other social security benefits there is a natural desire to build in protective devices against inflation in the form of cost of living adjustment clauses. The use of such devices in wage agreements is by no means universally favoured by trade unions, but the latest Labour Party pension plans include such an automatic adjustment to inflation. The proposal seems to many at once despairing and self-defeating, but the fact that it is made forces greater attention to the problem.

To dismiss as hopeless the attempt to halt the inflationary process by an agreed over-all wage policy seems churlish, but past experience does not provoke optimism. It is only too likely that voluntary restraint will break down again as it has done in the past unless other steps are taken to control the basic origins of inflation. It all looks a little too much like the government taking its turn in appealing to somebody else, this time the combined forces of capital and labour, to shoulder the awkward burden of decision.

Indeed, one wonders whether the State is not actively contributing to the problem by bidding against itself in some important fields. How often does one hear the argument that, say, University salaries (provided, at the margin, entirely by

the Exchequer) must go up because the salaries of scientists in government research stations and civil servants have gone up; and then a little later that, as the research stations and government departments are feeling the competition of the Universities, they must take the lead in another round of increases? Is it possible that the simple truth is that, so long as more money can in the last resort be found to meet theoretical needs, the demand for highly trained personnel as for everything else will go on exceeding the supply?

If it is true that no effective anti-inflationary policy has yet demonstrably been found, where do we look for such a policy? In 1948 there were some, perhaps a growing number, who thought that monetary policy, the weapon of the rate of interest, would be effective if only it could be tried. Now it has been tried and few would claim that it has done the job. It can be plausibly argued that the rise in interest rates has somewhat stimulated private saving, but that may be increasingly offset by fear of loss of monetary values. Anyway, the stimulation of saving is not enough by itself and the evidence of significant influence on the other side, on the pace of investment, is at best inconclusive. Certainly, if the talk one hears privately of the kind of return expected from internal company investment is any guide, variations in interest rates of the order hitherto attempted are not likely to change many investment decisions. There is thus loss of confidence in the monetary weapon as normally interpreted and further reason for re-appraisal.

Some may therefore be wondering whether the answer lies in a more complete reversion to the old system in which the rate of interest apparently did work. We seem to have been trying a policy of high rates but, in the last resort, an unlimited supply of money. Can it not be argued that the essence of the pre-1914 system was a definite limit to the supply of money, and that it was that limit which at any particular moment gave a basis for the fixing of rates? Easy as it is to shoot holes in any formal statement of the quantity theory of money, no economist is likely to deny that a strict self-denying ordinance on the part of the creators of new money—i.e. the government—would fairly soon bring inflation to an end.

Such a self-denying ordinance would itself create new problems. Technically, new methods of policy would be needed to cope with the floating debt, as discussed in an article in this *Review* of April, 1956. But it is the effects on government spending, on the financing of government controlled investment programmes, and above all on inflation, which are most likely to give pause. If full employment as now understood

is impossible without some steady fall in the value of money, which would the mass of the public choose to sacrifice? And if general opinion, in practice if not in theory, prefers to put up with a gradual deterioration in the value of money, what are the consequences for the problems of incentive to work and save? In other words, the crucial problem is that of maintaining or creating the personal attitudes necessary for an adequate economic dynamism without losing the benefits of other social and economic changes.

* * *

In summary, the purport of these random reflections is that the country is going through a major process of re-assessment of needs, potentialities and policies. One major change is one of emphasis between external and internal interests, to a certain extent a withdrawal from the external field both politically and economically. In the field of the balance of payments there is reason to fear that current attitudes are too complacent and undervalue the threats of the near future. More generally, in the external field there is discoverable a greater hope of co-operation with Western Europe and less concern with Asia and Africa. More concentration on internal policy reflects the greater realization of the importance of internal strength alike for current welfare, for investment for the future and for external influence. In the internal field, there is less reason to think that the continued high level of surface prosperity is leading to complacency. On the contrary, anxieties about wage and other income policies and about the prospective continuance of inflation are leading to more and more heart-searching on all sides. It is, however, suggested that those heart-searchings have not yet gone deep enough: that on the industrial side a change, perhaps a revolution, in the relationships between management and labour may be more important than a wage policy; and that on the financial side, an imposed monetary discipline, rather than negotiated voluntary restraints, may be the necessary preventive of further inflation. Possibly all that has been said could be described as variants on the two themes of the importance of inner strength and the need to re-establish a framework in which individual responsibility can play a greater part.

Sydney Caine.

The London School of Economics.
June, 1957.

Switzerland Copes with Prosperity

By George Soloveytchik

ON 15 May, 1957, the Swiss National Bank raised its discount rate from 1½ to 2½ per cent. and its rate for loans against securities from 2½ to 3½ per cent. The event is epoch-making in Switzerland's economic life, for Bank Rate has remained unchanged since the autumn of 1936. Throughout 1956 and the first quarter of 1957, when most other Western countries were increasing the price of money, there was a growing volume of criticism in Switzerland concerning the obstinate adherence of the National Bank to its ostensibly immutable low Bank Rate. But in answer to his critics, Dr. W. Schwegler, the National Bank's president, invariably replied that in his view money rates alone were an inadequate weapon for fighting inflation. Again and again he also went on record in speeches and articles to the effect that unless Bank Rate could be raised very sharply, there was no point in raising it at all, pointing out that the gradual doubling of the price of money in the U.S.A. had not really stemmed the tide. He pleaded that an increase in the Bank Rate would not only upset the mortgage market but the general structure of the Swiss economy and would be frought with most unpleasant results.

The main reason now given for his sudden complete *volte face* is the urgent need of a danger signal. Switzerland's economy, owing to the never-ending boom, is over-extended to an unhealthy degree. All 1956 figures are record figures by far surpassing the 1955 and 1954 achievements, which had likewise constituted unprecedented records. And the first quarter of 1957 shows that the present economic tempo exceeds even that of 1956. Demand—both in the private and the public sector of the economy—is continuously growing. Though exports, like production, are at their peak, they cannot keep pace with import requirements. The National Bank has made it quite clear that a one per cent. increase in the discount rate is not in itself a sufficient remedy and has warned the nation against

---

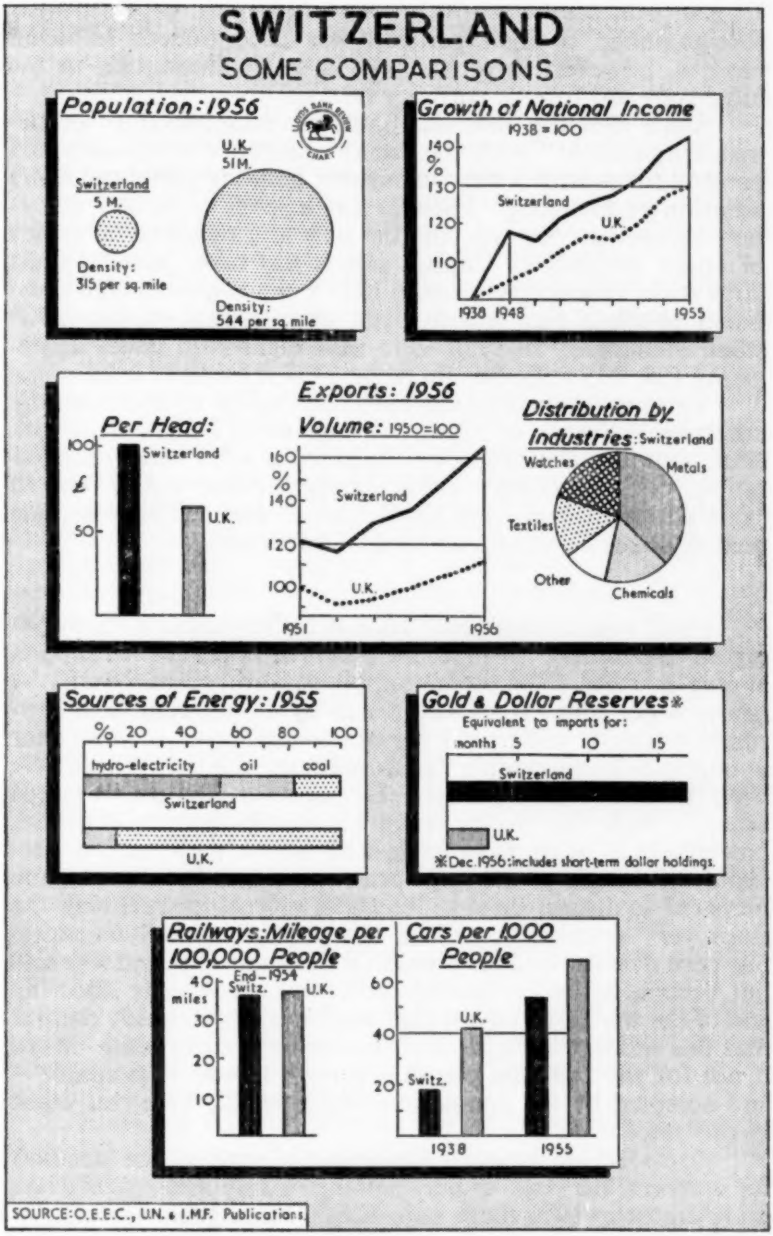
Mr. George M. de Soloveytchik, at one time Foreign Editor of *The Financial Times*, is a well-known lecturer and writer on international affairs. He is the author of a standard work on Swiss democracy, *Switzerland in Perspective* (Oxford University Press, 1954).

dangerous over-expansion. Further measures for checking the boom and decreasing the resultant inflationary pressures are being considered at all three levels—federal, cantonal and communal.

Dr. Hans Streuli, Head of the Federal Finance Department (Minister of Finance) and currently President of the Confederation, has said that he would like to use the State's huge accumulated and constantly growing funds for a massive reduction of the national debt or even its complete amortization. But he is not allowed to do so by political considerations and by the established tradition that the State provides media of investment for public and private institutions, as well as for the nation at large. So, harassed Dr. Streuli can amortize and convert only relatively small amounts. He has also tried a different approach, namely tax reduction. But while his cuts in the defence contribution and the turnover tax were estimated to cost some Fcs. 100 millions last year, the continuous boom resulted in a much larger expansion of tax revenues all round. The 1956 budget estimates put the net surplus at Fcs. 348 millions, after allowing for the Fcs. 100 millions of concessions, but the final figure turned out to be a surplus of Fcs. 647 millions. The 1957 estimates, with revenue at Fcs. 2,292 millions and expenditure at Fcs. 1,988 millions, envisage a net surplus of Fcs. 350 millions; if the present trend continues this should certainly prove to be a considerable underestimate.

From all over the world, money has been pouring into Switzerland, testifying to the confidence of other nations in the stability of the Swiss franc or, as a cynic might put it, the lack of confidence in their own currencies. Much of it is unhealthy "hot" money, of course, but there is also plenty of evidence that the Swiss themselves have been busy repatriating part of their huge foreign investments—the true total of which is unknown to anybody.

This inflow of money is reflected in the spectacular growth of the reserve of gold and foreign currencies, which at the end of 1956 was sufficient to cover the whole of the note issue with a margin of 30 per cent. Small wonder that the dollar is selling at a slight discount in Switzerland and that the efforts to reduce the inflow of dollars have proved of no avail. To counteract the accumulation of gold the National Bank tried to put on the market some gold coins in the hope that purchasing power would thus be mopped up. In ten months the equivalent of only Fcs. 70 millions was absorbed by the domestic and


SWITZERLAND
SOME COMPARISONS
Population: 1956
U.K.
51M.
Switzerland
5 M.
Density:
315 per sq. mile
Density:
544 per sq. mile
Growth of National Income
1938 = 100
140
%
130
120
110
Switzerland
U.K.
1938
1948
1955
Exports: 1956
Per Head:
100
£
50
Switzerland
U.K.
Volume: 1950=100
160
%
140
120
100
Switzerland
U.K.
1951
1956
Distribution by Industries: Switzerland
Watches
Metals
Textiles
Other
Chemicals
Sources of Energy: 1955
% 20 40 60 80 100
hydro-electricity
oil
coal
Switzerland
U.K.
Gold & Dollar Reserves*
Equivalent to imports for:
months 5 10 15
Switzerland
U.K.
*Dec. 1956: includes short-term dollar holdings.
Railways: Mileage per 100,000 People
End-1954
40
miles
30
20
10
Switz.
U.K.
Cars per 1,000 People
60
40
20
U.K.
Switz.
1938
1955
SOURCE: O.E.E.C., U.N. & I.M.F. Publications

foreign public, so this experiment was discontinued. In recent months, however, there has been a small diminution in the huge gold and foreign currency reserve.

Since 1951 the National Bank has maintained a "gentleman's agreement" with the banks, insurance companies and pension funds with a view to curbing building loans and other inflationary financing. There is also a series of further voluntary agreements for applying the now almost universal policy of credit restriction. Capital export has been pursued on a large scale, reaching its peak in 1955 when twelve foreign bond issues totalling Fcs. 428 millions were floated on the Swiss stock exchanges. In 1956 there were eight such issues aggregating Fcs. 285 millions. So far in 1957 there have been none.

Various other measures have been taken to deal with the excessive pressures of expansion and these I shall deal with later. But first it is necessary to glance at a few more manifestations of Switzerland's embarrassing prosperity and then to examine the nation's historical background. Otherwise, the present situation would be hard to understand.

* * *

First, even Switzerland has not entirely escaped the contagion of inflation. In 1956, the excess of imports over exports almost doubled. The money supply rose in twelve months by nearly 8 per cent., wholesale prices by 4½ per cent. and consumer prices by just over 2 per cent.—significant increases for a country of Switzerland's traditional price stability. Wages have been increasing continuously. Demand for labour and goods being so high, the unions are in a strong bargaining position. Nevertheless, being reasonable and Swiss, they fully understand the danger of the wage-price spiral and have been quite prepared to discuss these problems of mutual interest with the employers' organization. The labour market in Switzerland has been overstrained for years and shortage of skilled workers has become a regular feature of the Swiss economy since the end of the war. In a record year such as 1956, it is only natural that this situation should have become even more acute. Were it not for the fact that plentiful foreign labour is available—and accepted by the population—there would be a real crisis in this respect.

Considerable seasonal fluctuations occur in the demand for workers, the peak usually coming in July and August. At mid-August in 1956 there were 326,000 foreigners working in

Switzerland, or 55,000 more than a year previously. This represents a significant proportion of the labour force, bearing in mind that the country's total population is only about five millions. Of these 326,000 workers, some 206,000 came from Italy and the remaining 120,000 mostly from Germany and Austria. Only some 10 per cent. of the foreign labour force is made up of so-called frontier dwellers, or men and women who cross the border every morning to work in Switzerland and then go back to their own country at night.

Here it is important to emphasize that great structural changes have taken place in Switzerland's population, which has virtually doubled in the last 100 years. The romantic view that the Swiss are a nation of cowherds and innkeepers was never quite true and is certainly belied by the facts today. Since the earliest times the Swiss have been shrewd and enterprising merchants, as well as excellent craftsmen and artisans; as "guardians of the mountain passes" they were early transport specialists; and as mercenary soldiers (largely driven to enlist by their native poverty) they not only fought in many foreign lands but brought back to their mountains and valleys new skills acquired abroad, together with considerable wealth which they knew how to put to profitable use. But while, up to the beginning of the present century, a large proportion of the population could still be described as agricultural, modern Switzerland is primarily a country of industry, trade and finance. Today, less than 16 per cent. of its people are employed on the land, while 47 per cent. are in industry, 12 per cent. in trade and banking, 5 per cent. in transport and 8 per cent. in administration, the liberal professions and so on.

The people of Switzerland would barely be able to eke out a miserable existence—certainly they could not keep up anything approaching their accustomed standard of living—were it not for the spectacular development, during the last seventy-five years or so, of their foreign trade and other activities (finance, insurance, banking, transport and the tourist industry) which link them so closely with the rest of the world. About one-third of all that the country produces must be sold on the world's markets in order to pay for the imports without which Switzerland cannot live.

These few facts and figures are sufficient to bring out the essential characteristics of Switzerland's whole economic structure: she buys from abroad the food, raw materials, and equipment she lacks at home and pays for all this with the

products of her skill. In her exports the cost of the raw materials is often as low as 5 per cent. of the total value—in an average watch a mere 3 per cent. Thus, nearly the whole value represents the work and "know-how" that the people of Switzerland have put into the production of articles which throughout the world deservedly enjoy a reputation of unsurpassed quality. Skill, plus a unique capacity for hard work, efficiency, good management and thrift, have enabled a small and fundamentally poor nation—with none of the natural advantages enjoyed, for example, by Britain and the United States—not merely to overcome its various handicaps, but to build up great financial resources which for generations have been successfully used by its banks and insurance companies both in domestic and international activities.

* * *

Switzerland is a Federal Republic consisting of twenty-two cantons, or twenty-five completely sovereign units, since three cantons are each divided into autonomous halves. These cantons, which vary a great deal in shape, age and population, are not just administrative divisions or picturesque relics of the past. Each has a wholly separate history, its own traditions and institutions, its own form of government, its own constitutional, occupational, social and national diversities. The nearest analogy, to my mind, is provided by the structure of Oxford or Cambridge University. In both cases the colleges and the cantons provide, in a certain rotation, the ever-growing number of officers of the various "joint" bodies that represent the University or the Confederation, ranging from the central administration and the office of temporary head of the whole organization down to the many minor positions—each with its own essential function. In both cases one has to be a member of the smaller unit (college, canton) to be a member of the larger one (University, Confederation). In both cases, in days gone by, the smaller unit constituted the real centre of activity but modern developments have involved growing centralization and the gradual passing of many important privileges into the hands of the University or the Federal government.

Of the twenty-five cantons, thirteen are predominantly Protestant and twelve Roman Catholic. In nineteen, the people are mainly of Germanic stock and speak a language which belongs to the Germanic family of tongues but which is never-

theless very different from the German spoken in Germany. In five cantons the predominant language is French, while Italian is spoken throughout the canton of Ticino and in parts of the Grisons. In the latter canton there is also one other language, namely Rhaeto-Romansch, spoken by about 50,000 people who are very jealous of their ancient culture. Racial, religious, linguistic and territorial boundaries do not coincide. This is very important, because where people are disunited by their ethnic background they are held together by a common religion and *vice versa.* No group of citizens follows a political pattern dictated by ethnic, religious, linguistic, occupational, or even party allegiance. In cantonal and federal elections a citizen may vote in one way and in a referendum in the opposite way, acting as a party man at elections but as an independent individual in the popular vote.

It can be said that the whole domestic policy of Switzerland is dominated by the necessity of striking a happy medium that will safeguard the rivalling or conflicting interests of all its component parts. Unlike America, Switzerland is no "melting pot". Far from desiring or even promoting the unification of its people into one homogeneous nation, the Confederation is primarily concerned with enabling them to maintain and enjoy their various peculiarities. The very basis on which the Confederation is built is addition, not amalgamation, and the problem is to find ways that make it possible for a modern federal State to function effectively while at the same time giving scope for its ancient autonomous members to pursue their traditional paths.

The system of double sovereignty—cantonal and federal—makes it necessary to define as clearly as possible the nature, functions and limits of each. There is a permanent problem of determining the competence of the central government of the Confederation on the one hand and that of the twenty-five cantonal governments on the other hand. To protect and preserve cantonal autonomy, and yet avoid the paralysing effect of administrative sectionalism on the Confederation as a whole, is only one of the many equations that have to be solved continuously and in a great variety of ways. There is, for example, rivalry between the cities and rural districts. Though agriculture now occupies less than one-fifth of the population, social, economic, and political considerations make the preservation of a healthy and reasonably prosperous peasantry a major aim of domestic policy. This requires

sacrifices and adjustments from other groups of citizens, who for their part feel themselves entitled to claim as much consideration as the peasants, and who never stop pressing for equality of burdens or subsidies or exemptions.

The Switzerland of today is essentially a middle-class society, and it is socially much more homogeneous than the rugged individualism of its citizens or the diversity of their background would seem to make possible. It has all the faults and virtues inherent in a middle-class society. Solid, slow, conservative, headstrong, self-righteous and opinionated, pedantic and querulous, it is also precise, efficient, frugal, upright and hardworking. The unwritten code of human conduct is the tradition of toil and worry, accepted as axiommatic. The *homo helveticus* has a quite unbelievable capacity for concentration on hard work and an equally striking incapacity to relax. There is a great deal of truth in the saying that the Swiss are the only nation in the world today who could afford to laugh, but that they do not know how to.

It is one of the essential peculiarities of Swiss democracy—at all levels—that power rests not with the individual but with a plurality. The "Sovereign" (officially termed as such) is the nation itself. Like a true democratic sovereign, he reigns but does not govern. Supreme power in the State belongs to the people in their collective capacity. Under the Swiss system of direct democracy, they have the last word in all important decisions, since they not only elect their legislators but can, and frequently do, overrule the very men they have placed in authority.

This applies to both federal and cantonal governments. No constitutional amendment decided upon by Parliament is valid before it has been submitted to the people's vote; this is known as the compulsory constitutional referendum. A double majority of the country as a whole, as well as of the cantons, is thus required to pass a new law affecting the Constitution. A majority of votes in a canton is taken as representing the canton itself. Since 1874 there has also been a further procedure, called the optional legislative referendum. This means that no general law, after approval by Parliament, can come into force for three months, during which period the people have a right to demand a referendum, if at least 30,000 voters choose to sign a petition to this effect. Since the passing of a constitutional amendment in 1891, the people have also

had a right of "initiative", which entitles any citizen or group of citizens, who can obtain 50,000 supporting signatures, to propose legislation—through a referendum—without consulting Parliament.

In other words, the citizen does not abdicate his powers from the moment he hands in his voting papers but maintains—in theory, at any rate—complete control at all times. He takes the view that the government is his servant and not his master. And if there is one thing peculiar to the Swiss as a nation, it is their dislike of the acquisition of too much power by anyone. Frequently, an idea has been turned down not because of any real objection to it but because of its novelty. Almost every piece of vital legislation in the last fifty years has not merely been rejected several times before gaining the people's approval in a slightly amended form, but in most cases several years have had to elapse between the acceptance of an idea and the beginning of its practical application.

Even when it is recognized that reform is necessary—as, for example, in the Confederation's finances—a Swiss will not give up his firmly acquired habits. In 1849-50 the total expenditure of the Confederation was Fcs. 3·7 millions; within a hundred years the figure had grown to nearly Fcs. 2,000 millions. That such a huge expansion, necessitated by the continuous growth of the Federal government's tasks and duties, requires constitutional adjustments seems obvious. Yet the fundamental principle laid down in 1848 (paragraph 42 of the Constitution) still remains the same: namely, that direct taxation goes to the cantons and that the Federal government derives its main income from indirect taxes, postal revenue, the sale and manufacture of gunpowder, and certain national property.

This was reasonable enough in the nineteenth century, but it has created an absurd situation in the twentieth. In both world wars, as well as in the years of crisis between them and again since 1945, the Confederation has had to be supplied with vast sums of money by all manner of temporary expedients. These have included a variety of new taxes as well as war-time capital levies. In fact, if not in name, direct taxes now flow into the coffers of the Confederation, as well as into those of the cantons. But most of the measures taken to achieve this have been quite unconstitutional and were possible only through the application of Emergency Regulations, first introduced in August, 1914, and used with ever-growing frequency since.

During the last forty years, repeated attempts have been made to place federal finance on a legal constitutional foundation, but the people have rejected all such projects. Since the end of the second world war, there have been two serious efforts to carry through a financial reform which most people agree in theory to be essential. A third project is in preparation now but there is no certainty that it will meet with a happier fate than all its predecessors.

Not merely an intricate financial issue but a vital political principle is involved, namely, the struggle between federalism and centralism. Here it should be explained that in Switzerland the word federalism means the exact opposite of what it does, for example, in America. In Switzerland it stands not for the growing power of the Federal government but for the preservation of cantonal and communal independence. Centralism, on the other hand, means the strengthening of the federal authorities at the expense of local autonomy. When financial reform is in question it is argued that the power to levy direct taxation would not only give the Federal government the right to appoint tax inspectors in the cantons and to interfere in far too many cantonal affairs, but that it would also gradually transfer political decisions from the cantonal to the federal authorities.

The federalists—which in this case means most of the Radicals, Conservatives and Farmers—are against direct federal income tax, while the Socialists, who are accused of being centralists, are mostly for it. But the whole issue cuts across party lines and is further complicated by the fact that the Federal government pays some Fcs. 300 millions in annual subsidies of all kinds to the cantons, while at the same time also receiving substantial payments from them. Nobody quite knows how to establish an acceptable scale of payments and receipts between Berne and the cantons, and the battle about these "quotas" is almost as violent as that about reform itself.

Swiss economic life is very strictly controlled. Not, however, by the government but by the various organizations representing industry, trade, agriculture, labour and other professional interests. All these organizations exercise a great deal of influence on the administration and the public alike. Though from a strictly constitutional point of view this is wrong, in point of actual fact they perform a useful service in maintaining the smooth functioning of the delicately balanced Swiss economy and, together with the top civil servants, they

can be said to be the real government of modern Switzerland.

Thrift is one of the nation's oldest traditions. Altogether, Switzerland can boast of about 1,300 banking establishments, with a total of 3,500 offices. There are about 6 million savings and deposit accounts in the country—which means more than one per inhabitant—the average balance being estimated at about Fcs. 2,000. Not only thrift, but the urge for financial security, is a national characteristic. There is no other country whose citizens are more heavily insured or who cover themselves against such a wide variety of risks. The average citizen has not only more than one deposit account but also more than one life insurance policy. And to these individual measures of self-protection must be added the endless collective ones, like the pension funds and various other insurance schemes which have accumulated funds amounting to many thousands of millions of francs.

* * *

After the end of the second world war—which, contrary to general belief, did not enrich the Swiss but caused much serious dislocation of their economic life—the country soon resumed its traditional rôle in international finance. Between 1945 and 1954 Switzerland put at the disposal of other countries Fcs. 1,288 millions in loans and Fcs. 1,449 millions in credits. Since then, through repeated bond flotations on the Swiss stock exchanges, several hundred million francs have been provided for the World Bank in Washington, and last September an agreement was reached between the Swiss government and the World Bank for a loan of Fcs. 200 millions for 3 years at 3⅝ per cent. by the government itself.

The idea seemed attractive and the Federal authorities saw in it a chance of earning some interest on at least a part of their sterilized money and also of avoiding any new inflationary effects by carrying out the transaction entirely outside the market. But the scheme met with strong opposition, especially from the banks which specialize in foreign issues, even before the Suez affair created an atmosphere of great apprehension throughout the nation. As a result, when the matter came up for ratification in Parliament, the government had to put up a hard fight to get it through. The monetary authorities also had to meet the criticism that, after a long period of easy money, the market in the course of 1956 had become very tight, allegedly through the fault of the government.

"Tight money" is, of course, a very relative term when used in Switzerland. The sense of proportion of the business community has become somewhat blunted after the many years of too easy expansion. There has been so much money about that frequently the larger firms have not required even the banks' help, while these in turn have not needed any facilities from the National Bank. The certain strain which is now undeniable has been partly due to the unabated demand for cash and credit to finance building, general industrial expansion and unprecedentedly high foreign trade requirements.

The somewhat more stringent financial conditions have also been, however, at least in part, the result of the government's deliberate policy of combating inflation through a series of measures to keep as much money as possible off the market. In the course of 1956, the average yield on Swiss government bonds rose from 2·94 per cent. to 3·22 per cent. The average rate for mortgage loans—a very big business in Switzerland, especially where farming and the hotel trade are concerned—remained unchanged at 3·54 per cent., but lenders seem to have become more discriminating. For medium-term deposits the average rate for the five largest banks rose from 2·91 to 3·21 per cent., and for the cantonal banks from 2·93 to 3·13 per cent. In the course of the year Fcs. 613 millions net of new money was raised through domestic bond flotations, of which no less than Fcs. 333 millions went into electrical power development. A mild sensation was caused in November when, for the first time in many years, a power station loan was issued at as high a rate as 3¾ per cent. An even greater shock was caused when the bulk of two such issues was left with the underwriters this spring. The share market had its ups-and-downs in 1956, largely following the fluctuations of the international political situation, but on balance showed very little change: the share index (based on the original price at which shares were issued) was 436 at the beginning of the year and 450 at the end of December. The impact of the new Bank Rate on the money and capital markets—especially on the mortgage market—cannot be assessed as yet. But it is bound to be considerable.

With the economy booming, most trades and industries are doing extremely well, though this does not prevent some of them from voicing continuous complaints. In 1956, the watch industry, for instance, established a new record, its exports amounting to Fcs. 1,234 millions,—an increase of about 15 per

cent. compared with the previous year. Pride-of-place in Swiss industry belongs to the mechanical engineering and metal industry, whose exports in 1956 amounted to Fcs. 1,405 millions. To this should be added Fcs. 462 millions for mechanical appliances, making an imposing total of Fcs. 1,867 millions. Watches come second, followed by chemicals, pharmaceuticals and dye-stuffs (Fcs. 1,015 millions) and textiles (Fcs. 888 millions).

Switzerland's industrial output has its main sales appeal in the unusually high quality of the goods rather than in their price. There are no mass production industries in the country, the largest single firm employing at its headquarters about 11,000 workers and some 3,000 others. Another essential peculiarity of Swiss industry is the number of firms—now large joint-stock companies—where the descendants of the original founders are still the principal executives. This often creates a warm personal link between management and labour.

Small wonder, then, that the order-books of industry are full for several years ahead. Yet German competition is getting increasingly keen and other countries are also making inroads into old-established Swiss markets. The Swiss also see a great threat in the idea of a European Common Market. Most experts are against it, but they find the prospects of a Free Trade Zone not altogether unattractive. The Swiss always like to consider themselves as a "special case" and are reluctant to relinquish any immediate advantages or old-established practices for some future goal—however promising this may sound. Much prejudice and suspicion had to be overcome before Switzerland agreed to join the European Payments Union or in 1956 agreed in principle to become a member of the General Agreement on Tariffs and Trade. This time, too, the experts and the leaders of the business community are worried about exposing themselves to some new arrangements they cannot fathom and yet they are afraid of missing something if the idea of West European economic integration becomes a living reality.

Thus the Swiss horizon is somewhat clouded by the fear that the prosperity which they have grown to take for granted after twelve years of an uninterrupted post-war boom may not last for ever.

George Soloveytchik.

Paris.
May, 1957.

The Future of Local Government Finance

By J. Wiseman

THERE has been much discussion in recent years of the need for new sources of local finance and/or changes in the nature of local authority responsibilities. The government is now proposing to widen the scope of the local rate by reducing the extent of the de-rating enjoyed by industrial properties from 75 to 50 per cent. of their rateable values, and by restoring some public undertakings to rating. It also intends to generalize the form of the financial aid provided to local authorities by the central government, by withdrawing many of the specific grants at present made for the finance of particular local services and replacing them by one grant not allocated to specific services but intended to help finance local expenditures in general. This article will consider how far these proposals are likely to prove adequate for dealing with the present problems of the finance of local government in Britain.

There is little doubt that much of the current discussion of the reform of local finance originates in a belief that the present sources of local finance are in some way inadequate in relation to the financial burden that local authorities are being expected to carry. For this there is little evidence. Measured in absolute money terms, local authority expenditures have of course been rising, but not in relation to gross national product. Total local expenditure has been a fairly constant proportion of G.N.P. in peace-time years since 1921; indeed, the proportion was rather higher in 1938 than in 1954. And the increase in rate *poundages* that has occurred over the period does not necessarily imply an increased real burden on local ratepayers. If there is a rise in prices not accompanied by an increase in assessed rateable values, then an unchanged "real" burden requires the levying of higher money poundages.

In sum, the problems of local government finance do not

Mr. Wiseman is a Lecturer in Economics at the London School of Economics. The statistics used in this article have been collected in the course of a joint study of British Government Expenditure being made by Professor Alan T. Peacock and the author for the National Bureau of Economic Research. He also wishes to thank Mr. J. Veverka, Economics Research Division, London School of Economics, for help in the compilation of the statistics.

seem to arise to any great extent out of a growth in the volume of the real responsibilities of local authorities. They must therefore be sought in changes in the way local expenditures are financed and in the nature of the expenditures themselves.

I. SOURCES OF FINANCE: GRANTS AND RATES

Local authorities finance their current expenditures primarily out of central government grants and out of the proceeds of the local rate. It is these sources of finance that will concern us in this article. But money is also obtained by local authorities from other sources, and some initial explanation of these will help to make the position clear.

There is first the trading income received by local authorities, such as rent payments made for the houses they own and let. Direct payments for services of this kind create no problems of raising local revenue: our interest is in expenditures that are not "self-financing" but have to be met from general revenue sources. Secondly, local authorities spend money on capital projects, and particularly on house building, and raise this money mostly by loans. Local government capital expenditures are by no means negligible, and are more volatile in nature than their expenditures for current purposes.

Until after the second world war, capital expenditure was something less than a third of total expenditure by local authorities. Since then it has become more important, doubling in money terms between 1947 and 1954, and accounting for 40 per cent. of total local government spending in the latter year. In the 1930's, local governments were responsible for almost all government capital formation, and in 1954 they still accounted for some three-quarters of the total. But our present interest is in the problems of *finance* of local expenditure, and loans for capital purposes raise relevant questions only in relation to the costs of servicing them. Loans have to be repaid, and insofar as repayments are not made out of the direct payments for local services just described they must come out of current grant or rate-income. Consequently, current revenue and expenditure statistics give all the information necessary to elucidate the important problems of local finance. The rest of this section will accordingly be restricted to consideration of current revenues from grants and rates, and we shall then discuss current expenditures similarly. The statistics used differ from official sources only in that the central government housing subsidy is here treated as a grant to local authorities for a social service.

Table I shows how the dependence of local authorities upon grant-aid has changed since 1918. It is clear that the general importance of grants as a source of local finance has increased over the last 40 years relative to that of rates, so that a second possible reason for the existence of a local financial burden has to be rejected: local authorities are not having to meet a larger proportion of their expenditures out of revenues raised by themselves. There have, however, been marked changes in the *character* of grant-aid. In 1928, grants accounted for 36 per cent. of local authority current expenditures, but only 2 per cent. of that expenditure was met by grants that were not allocated to specific local services. In 1933, the proportion of expenditure covered by grants had increased to 46 per cent. and the share of unallocated grants to 18 per cent. —more than a third of all grant-aid. This is a most striking change in both the size and the character of grant-aid: it is the result of local government reforms of the period, which introduced the General Exchequer Contribution (the first large unallocated local authority grant), partially as an offset to the effect on local revenues of de-rating. Subsequently, the over-all importance of grant-aid as a whole has increased further, but since the second world war unallocated grants have diminished in importance once more, providing for only 9 per cent. of local expenditures in 1954.

This new decline in the importance of "general" grant-aid is the result of the replacement of the General Exchequer Contribution by the Exchequer Equalization Grant, which differs from the earlier grant in that it meets a smaller pro-

TABLE I

Central Government Grants to Local Authorities as Percentage of Current Expenditure, 1918–1955 (Selected Years)

	1918	1928	1938	1950	1954	1955
Government Grants:	£m	£m	£m	£m	£m	£m
(1) Allocated	30	99	105	266	396	442
(2) Unallocated	3	7	57	57	81	83
(3) Total	33	106	162	323	477	525
(4) Local Authorities Current Expenditure	129	296	368	642	909	986
(5) (3) as % of (4)	% *25*	% *36*	% *44*	% *50*	% *52*	% *53*
(6) (2) as % of (4)	*2*	*2*	*16*	*9*	*9*	*8*

portion of local expenditures and also in the method of its allocation. Unlike the Exchequer Contribution, the E.E.G. does not accrue to all local authorities. It is intended to operate not as a general subvention but as a means of improving the position of local authorities with low rateable values. The allocation of the Grant is determined by a formula relating the amount received to the extent to which a local authority's weighted rateable value per head falls below that of the country as a whole. Authorities above the average get nothing; one-quarter of all authorities are thus excluded, and only two-thirds of all local authorities receive grants that meet more than 10 per cent. of expenditures that would otherwise fall on rates. These figures ignore differences between types of authority: only 8 out of 62 county councils are excluded, whereas one-third of the county boroughs get no grant.

Here we find for the first time a possible reason for the existence of a local government financial problem, namely in the reduced importance of general grant-aid compared with specific grant-aid, which can be argued to entail a loss of local autonomy. There is also the fact that the general statistics give a misleading impression of the revenue position of the many authorities who now receive little or no general grant-aid at all, but have to depend entirely upon aid extended for specific services and upon their own resources.

Table II overleaf classifies allocated grants to local authorities by broad functions, and shows the proportions of expenditure of particular types met out of such grants. The table provides some indication of how authorities not in receipt of the unallocated (general) grant have been able to meet their obligations. Many of the grants for individual services are not fixed in amount, but vary with actual money expenditures on the particular service. Grants of this type have been important in the case of expenditures on the social service functions, which are easily the largest group of local expenditures (see next section) and also the one most dependent upon grant-aid. Within the social services group, the education main grant is by far the largest single variable grant; in fact it currently accounts for around a half of all grant-aid—that is, for about a quarter of all local current expenditures. In recent years this education main grant has been between three and four times the size of the general Exchequer Equalization Grant, and can plausibly be argued to have replaced the general grant as the main source of grant revenue for the majority of local authorities.

The other important source of local revenues is, of course, the local rate, a tax levied on the annual value of land and buildings occupied by local citizens and expressed as so many shillings per pound of the assessed valuation. Since the recent revaluation of properties carried out by the central government, private dwelling-houses have been rated by reference to a notional 1939 rateable value, commercial and other properties by reference to current values. Agricultural properties have been completely de-rated and industrial premises rated at only 25 per cent. of their full valuation ever since the pre-war reforms earlier referred to. In consequence of protests, commercial properties also are now to enjoy a partial (20 per cent.) de-rating, at least until 1961, when it is planned to revalue dwelling-houses at current values.

TABLE II

Central Government Current Allocated Grants to Local Authorities, by Function, 1918–55 (Selected Years)

Year	Administration and Other		Law and Order		Civil Defence	
	£m	%[1]	£m	%[1]	£m	%[1]
1918	1	*5*	4	*38*		
1920	1	*5*	10	*47*		
1923	1	*4*	10	*48*		
1928	1	*3*	12	*48*		
1933	—	—	12	*48*		
1938	1	*3*	14	*48*	2	*(63)*
1943	13	*37*	23	*56*	58	*(94)*
1950	4	*8*	13	*30*	1	*(50)*
1952	3	*6*	17	*33*	3	*(100)*
1954	3	*6*	19	*32*	3	*(100)*
1955	3	*6*	21	*33*	3	*(100)*

Year	Social Services (excl. Housing)		Housing		Economic Services†		Environmental Services*	
	£m	%[1]	£m	%[1]	£m	%[1]	£m	%[1]
1918	25	*34*	—	*1*	—	*2*	—	—
1920	48	*39*	1	*34*	5	*12*	—	—
1923	52	*38*	8	*86*	13	*26*	—	—
1928	56	*37*	12	*81*	18	*29*	1	*4*
1933	46	*28*	15	*82*	12	*20*	2	*7*
1938	55	*28*	18	*77*	13	*20*	2	*6*
1943	77	*35*	18	*76*	14	*26*	2	*5*
1950	198	*56*	27	*68*	21	*23*	2	*3*
1952	250	*56*	36	*67*	26	*24*	1	*1*
1954	288	*55*	50	*71*	30	*25*	3	*3*
1955	325	*56*	56	*73*	32	*25*	2	*2*

[1] Percentage of total expenditure on the service covered by allocated grant.

† Roads, lighting, etc. * Sewerage, land-drainage, etc.

We have already seen that the local rate is providing a smaller proportion of local income than formerly. Nevertheless, there is much discussion about the need for (and possibilities of) its supplementation or replacement by other local revenue sources; *inter alia*, the Royal Institute of Public Administration has recently published the report of a study group on the subject. Why should this be so? If local autonomy is felt to be threatened by grant-aid of the present size and nature, why not simply raise more money by local rates and reduce dependence on grants? The usual argument put forward against such a step is that the local rate is a regressive tax and is also in some sense an "inelastic" tax source. These propositions are unsatisfactorily vague and misleading; let us examine them further.

Regressiveness alone need not be an important objection to any particular tax: what matters is the progressiveness of the tax system considered as a whole. The substantial objection to the local rate is not that it is regressive but that it is not directly related to income at all. It originated as a redistributive tax when property in land and buildings was a reasonable measure of relative income, and this is clearly no longer so. Also, the Rent Restriction Acts have removed any possibility of a proper correlation between the official valuations of house properties and the rent-incomes obtainable from them. The partial derating of different types of property is a further complication, as is the existence of local authority properties let at subsidized rents which include a separately-assessed rate-contribution.

There is no possibility of justifying the present incidence of local rates by appeal to a "benefit" principle. It has to be accepted that the methods of rate-assessment, exemption, etc. take no more account of individual benefit from local services than they do of the level of individual incomes. In any case, much local expenditure goes on services which benefit the population generally, so that their cost cannot be imputed to individuals.

The complaint that rates are an inelastic revenue source also needs clarification. In a technical sense it is misleading: increases in the rate per pound levied can be expected to bring approximately proportionate increases in rate revenues, since the tax is on immovable property and therefore not easily avoidable. The inelasticity of the local rate is of a different character: it is an unusually unpopular tax, and undue increases in its size threaten the political position of the local elected councils.

The causes of the unpopularity are not far to seek. The fact that the rate payable bears no fixed relation to the payer's income makes it a particularly objectionable tax to those who feel they are being discriminated against. It is also not unimportant that the local rate is by far the largest and most noticeable lump-sum indirect tax paid by most people. Further, county authorities do not levy rates directly, but collect them through subordinate local authorities, and this creates frustration both for the local ratepayer and for the subordinate elected councils, who are apt to be held responsible for rate-increases outside their direct control.

Finally, there is some evidence of the existence of a "rate-illusion". Notionally, there is no reason why rates of more than twenty shillings per £ of rateable value should not be common, since rateable value is merely a convenient measure of the relative burden to be placed on different local citizens. But there is a widespread feeling that levies of such a size are improper, and councils are consequently reluctant to impose them. Supporting evidence for the existence of, and belief of councils in, such a rate-illusion is provided by the great increase in the total amount raised in rates in the year after the introduction of the new and higher rating valuations, despite a government appeal to councils to exercise moderation. Councils who would not have dared to raise such extra revenues by pushing up rate-poundages felt able to do so when the actual burden on local citizens could be raised without rate-poundages rising simultaneously.

II. THE PATTERN OF LOCAL EXPENDITURE

In the light of this examination of the nature of the local "financial burden" and of local revenue sources, the reforms now being proposed by the government would appear to promise some improvement in the position of local authorities. Local autonomy might be expected to gain from the projected increase in the importance of the general grant, replacing the education main grant and other specific service grants. At the same time, industrial re-rating will increase total rateable values and so should make rate-revenues somewhat easier to raise. But a full appraisal of the extent to which the reforms will solve local authority problems must wait upon examination of the nature of local government current expenditures, to which we now turn.

Two striking features of the development of local government current expenditure are brought out by Table III,

classifying expenditures by broad groups or functions for selected years since 1918. First, there is the great importance of expenditure on social services, including housing. These services account for at least 55 per cent. of total expenditure in any peace-time year. Second, there is the remarkable constancy of the distribution of expenditure between the various functions. It would be wrong to conclude from this that the nature of local responsibilities has not changed. The character of the spending on social services has in fact altered radically. Education, which has been the most significant item of social service expenditure throughout the period, has increased greatly in relative importance. In 1933, little more than half of social service spending was on education; in 1954 the proportion was 73 per cent. This change is the result partly of the growing importance attached to the provision of education itself and partly to the transfer of other "expanding" social

TABLE III

Local Government Expenditure on Current Account, by Function, 1918–1955 (Selected Years)

Year	Administration and Other		Law and Order		Civil Defence	
	£m	% of Total	£m	% of Total	£m	% of Total
1918	14	*11*	11	*9*		
1920	19	*8*	22	*9*		
1928	18	*6*	24	*8*		
1933	14	*5*	24	*8*		
1938	19	*5*	30	*8*	4	*1*
1943	36	*8*	41	*9*	62	*13*
1950	48	*7*	43	*7*	2	—
1952	47	*6*	52	*7*	3	—
1954	46	*5*	60	*7*	3	—
1955	51	*5*	63	*6*	3	—

Year	Social Services		Economic Services		Environmental Services		TOTAL
	£m	% of Total	£m	% of Total	£m	% of Total	£m
1918	72	*56*	18	*14*	13	*10*	129
1920	126	*55*	43	*19*	22	*9*	231
1928	168	*57*	63	*21*	24	*8*	296
1933	182	*60*	58	*19*	27	*9*	305
1938	220	*60*	64	*17*	33	*9*	368
1943	246	*52*	52	*11*	36	*8*	474
1950	395	*62*	91	*14*	63	*10*	642
1952	503	*64*	107	*14*	74	*9*	786
1954	593	*65*	120	*13*	87	*10*	909
1955	653	*66*	127	*13*	89	*9*	986

service functions from local authorities to other bodies. The two influences together have consequences of some importance for local financial policy.

Local authority expenditure on education is now so large as to demand a central place in any discussion of local finance; it accounts for nearly half of *all* local current expenditure (as against about one-third in 1933). The growth has been due partly to the increase in the number of children, partly to changes in standards (such as the raising of the school-leaving age and the general provision of school meals since the war) and, partly, perhaps, to some increase in the real costs of education provision. It has been accompanied by a growing demand for nationally-uniform standards of education and by increasingly vocal criticism of local differences in educational opportunity, such as the numbers of school places available for secondary education and the size of the maintenance grants paid to university students. There is some evidence that in recent years this desire for uniformity has been reflected in growing control over the nature and extent of education provision by the central authorities, upon whom local governments are dependent for the grant-aid that finances so great a part of their education expenditures.

Education apart, other expanding social services have tended to move out of local control; this is a major reason for the falling share of local expenditures in the total of government expenditure. Thus, the marked decline in the comparative importance of local outlays on health and poor relief between 1943 and 1950 is primarily the result of the removal from the local authorities of responsibility for municipal hospitals and poor relief; such losses have been offset only to a small extent by new obligatory responsibilities (e.g. for old people's homes and children's services). The extent of the shift in responsibilities towards the central government can be measured by the fact that in 1928 local authorities were spending as much in total on social services as the central government, while in 1952 they were spending only half as much.

Broadly, the effects of the changes in local expenditures might be summarized in this way: Expenditure on the local relief of poverty and distress, which has been an important element in the evolution of local authority functions and initiative, has now become relatively much less significant and has changed greatly in character. On the other hand, education expenditure has grown to dominating importance and has become increasingly subject to pressures for national uniformity

of standards from individuals, governments and administration. These trends appear to run counter to the desire for local autonomy and call in question the adequacy, and even the relevance, of the proposed financial reforms, even though these will bring some immediate increase in local revenues.

III. CONCLUSIONS AND PROBLEMS

The net effect on local revenues of the proposed re-rating of industry and the partial de-rating of commercial properties is not substantial: at current poundages, the changes would increase rate revenues by about £16 millions. This is not a major contribution to the improvement of either the logic or the fruitfulness of the local rate. Accordingly, the suggested reforms must be judged by the proposed changes in the grant system.

The new general grant is to replace, *inter alia*, the education, child care, fire services and local authority health service grants; it is not to replace highway and housing grants, although these may be amended. The result will be that around two-thirds of all grant-aid will take the form of general grant, as against about one-sixth at present. The precise nature of the grant has not yet been made clear; a White Paper is promised before the summer recess. It is known, however, that the grant-formula will take account of the population of local areas, numbers of young and old, and other (as yet unspecified) factors affecting local responsibilities. The grant is to be "fixed in advance for a short period of years, though not necessarily at the same level for each year", but the criteria by which the size of each individual year's grant would be determined beforehand have not been stated.

It is already evident that the proposals are likely to create controversy, both inside the government and between the government and the local authorities. The Minister of Housing and Local Government, concerned for the preservation of local autonomy, appears to be proposing a fixed grant, with possibly some reduction in the proportion of local expenditures met out of grants. Such a grant, it is suggested, would increase local responsibility, as it would leave local authorities in the position of needing to raise an extra £1 in rates to meet an increase of £1 in their spending, as against (e.g.) the rate-burden of around 8/- incurred at present by spending another £1 on education. On the other hand, we have noticed the change in the character of local expenditures, and especially the growing importance of education. A fixed general grant would

obviously make difficulties for a Minister concerned for the creation of national minimum standards of education provision. Consequently, the Minister of Education is likely to press for a percentage-type grant, varying to some degree with actual expenditure. He has already said that "what is fixed is not the grant, but the formula by which the grant is ascertained."

Local authorities (with whose associations the proposals are now being discussed) also cannot be expected to take kindly to a completely fixed unallocated grant. Even if the grant were so determined that at the outset the authorities were no worse off, there is a widespread belief that their position must deteriorate thereafter; local expenditures are bound to go on rising and if grant income were more or less fixed this must imply either declining standards or an increased burden on the rates, which they would find unwelcome and unsatisfactory for reasons earlier explained.

This expectation of a continued growth in local expenditures is, of course, supported by the changed character of local authority spending earlier described. The "expanding" local services nowadays are not concerned with local poverty and distress; they are broadly of a "welfare" character, are subject to considerable central control and are influenced by the importance attached to national uniformity. In consequence, there may be little that local authorities can do to prevent their expenditures rising. It is also not without relevance that local authorities have grown used to inflationary conditions. It is perhaps unreasonable to expect a government which accepts the need to prevent further inflation as an aim of policy to plan its grant policy on the assumption that prices will continue to rise. But is it any more unreasonable, with recent experience in mind, for local authorities themselves to favour a grant-system that offers them some protection if inflation is not in fact controlled? The present percentage-type grants do offer a degree of protection of this kind; a relatively fixed general grant would not. This point is given strength by the fact that there are important costs which have to be met by individual local authorities but are outside their individual control, being settled by bargains of a quasi-national character. Salaries in the education service provide an important example.

In sum, a fixed general grant would be unwelcome to those who are interested in creating and maintaining minimum standards of provision in education and other local services, and to those who dislike the possibility of increased dependence on rate revenues. But to make the grant variable would bring

back the problems (e.g. of autonomy) that the general grant is intended to solve. The reason for the dilemma is clear. Real local autonomy requires not only that a local authority should have power to spend; it requires also that the authority should be able to take the effective decisions about how much to spend and what to spend it on. A desire to create nationally-uniform standards, however it is enforced, must conflict with local autonomy as an aim of public policy, whoever actually does the spending and wherever the funds come from. It can indeed be argued that local responsibility and respect for local government must be weakened by policies that create a situation combining ostensible local freedom with unavoidable local commitments.

On the plausible assumption that the government and the community are going to continue to press for national rather than local policies and standards in the important local services (and particularly in education), are there any alternative schemes that might solve the dilemma better than the present proposals? There are three broad groups of possibilities.

First, local authorities might be given new tax sources, such as the 3d. local income tax suggested by the R.I.P.A. committee, or the receipts of entertainment tax or taxes on motor vehicles. Not surprisingly, the government has rejected these possibilities: with present general levels of taxation the central government must be unwilling to sacrifice any tax source completely to local government. In any case, the most that can be expected of such measures is that they should increase the flexibility of local revenues and reduce dependence on the local rate. This is not without importance: it is perhaps too little recognized that the recent nationally-uniform revaluations removed the last vestige of local freedom in revenue-raising. Before revaluation, some differences in local valuation procedure were possible. Now, councils can decide how much to raise but have no authority at all in deciding how to raise it or from whom. Nevertheless, tax reform of this kind cannot touch the more important problems of local autonomy. If it is accepted that such autonomy requires effective freedom in spending as well as in revenue-raising, then useful reforms must deal with the control of local expenditures as well as the sources of local income.

Another approach might be to relate the size of the grants received by individual authorities, not to their actual expenditures but to some objective measure of cost. The West Midland Group, for example, suggested that financial aid to

local authorities should be related to local need and to notional costs of provision, expressed as a "unit cost", rather than to actual expenditures. This proposal would be more persuasive if there could be any confidence in the possibilities of establishing such "standard costs". Apart from the conceptual problems involved, which are formidable, it is not really established why costs do vary between districts. Moreover, rising standards of provision would necessarily involve recalculations of standard costs, unless problems of rising rate-burdens were to appear once more. In any case it is open to question how far such measures could in fact increase the real status and authority of local governments.

Finally, local authority functions might be so adjusted that they were left with only those services for which they could have real and substantial responsibility in decision-taking. Where national standards and hence central finance are appropriate they would merely stand in an "administrative" relationship with the central government. This would mean changes in the responsibilities of local authorities for expenditure and would also make possible changes in their sources of revenue. There is much to be said for such a step. It recognizes that the present problem is not in a fundamental sense one of finance or of administration but arises from the need to reconcile local freedom and responsibility with other and conflicting national aims. The decline in the importance of the parish and the vestry was associated with the improvements in transport and communications that made larger administrative areas possible. It is foolish to blind ourselves to the fact that the same kind of forces are now affecting the present system of local government. The questions of interest relate to the methods of adjustment to the new situation rather than to the need for it. Simple changes in the method of local finance are not enough.

As a first and immediate step, the local authority might be relieved of financial responsibility for education, so that the proposed general grant would not be required. This would substantially reduce local expenditures and remove a major reason for expecting them to rise in the future. It is tempting to suggest that the active provision of education might then be left to the operation of the market, the government restricting its activity to subsidizing those it wishes to have educated. (The arguments for subsidizing education are much stronger than those for its public provision.) However, the short-run difficulties of re-creating a market would be formidable, and

in the present climate of opinion such a proposal would be unlikely to command much public support: it is a sad fact that even the strongest champions of local government autonomy jib at the idea of family autonomy.

If, as is suggested, financial responsibility for education were transferred to the central government, this would enable the grant-revenue position of local authorities to be reviewed. The object would be to amend the Exchequer Equalization Grant so as to reflect the government's views of the needs of the poorer authorities in the new situation, its desire to offset some part of the increased expenditures it would have to make on education, and its wish to reduce the burden of local rates and so minimize the objections to that tax. To encourage local responsibility, the new grant, whose prime purpose would now be equalization of local resources, could be fixed in amount.

Given central direction and finance, there seems no reason why the education service should not continue to be locally administered. This proposal is often opposed on the grounds that it amounts to financing the service by a 100 per cent. grant, and that such grants are dangerous because they give no incentive to efficient and economic administration, so that the quality of the service must suffer and the costs of providing it must increase. This is a serious proposition. But what of the alternative methods of financing education that are actually available? If we compare the proposed centralization of finance and local administration with the methods now used, it is by no means clear that the present system must be less costly or more efficient. Wages and salaries are by far the largest part of the cost of education, and already these are mainly if not entirely outside the control of individual local authorities. Indeed, there is some reason to think that the bargaining process (and hence control of costs) might be improved in some respects if it were completely centralized. At all events, 100 per cent. grants are not entirely unknown (although they have not been used for services as important as education) and are not unsuccessful where used, while many other advanced countries finance a good deal more of their education centrally than we do.

The proposal to abandon the suggested general grant and finance education centrally instead is, of course, intended to deal only with the immediate problem. Education is selected because of its importance and special position in local finance. A case could be made for the central finance of a great deal of

other local expenditure. W. S. Steer has suggested* that as much as 43 per cent. of total rate-expenditure goes on services that have lost much of their local character and could therefore be centrally-financed to a much greater extent than at present. But the transfer of education would give a breathing-space. Once that had been done, there would be strong arguments for setting up a new body to report on central/local relations as a whole. Its terms of reference would be a good deal broader than those of the two Commissions already set up, which it might replace or absorb. They should embrace questions of the size and status of local areas, the nature of the services provided by local authorities and their sources of revenue. At the same time, a specific obligation should be imposed on the commission to investigate particular local authority services, with a view to distinguishing between those for which full local responsibility and hence local finance are possible (with e.g. some assistance for poorer authorities from a fixed general grant) and those which are national in character (from the point of view of standards and degree of central control) and in which the local interest should therefore be administrative at most. Recommendations might be made as to the best administrative relationship between central and local authorities with respect to those services found suitable for central finance. The projected return to local authority administration of the now independently-administered health services could be considered at the same time. Anomalies in the rating system could be reviewed and the methods of collection could certainly be improved by making county councils directly responsible for collection of the revenues needed for their own purposes.

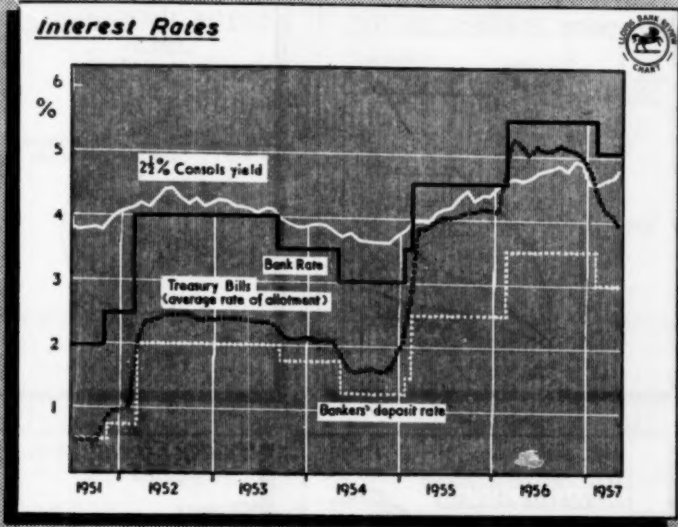
Far from reducing local autonomy, reforms of this character would help British local governments to regain that respect and support from local citizens which is the prerequisite of true autonomy, and which is currently in danger of being lost. This would be achieved by giving them more complete responsibility for those things for which they can be truly responsible, and by defining explicitly their (more limited) administrative responsibility for other services.

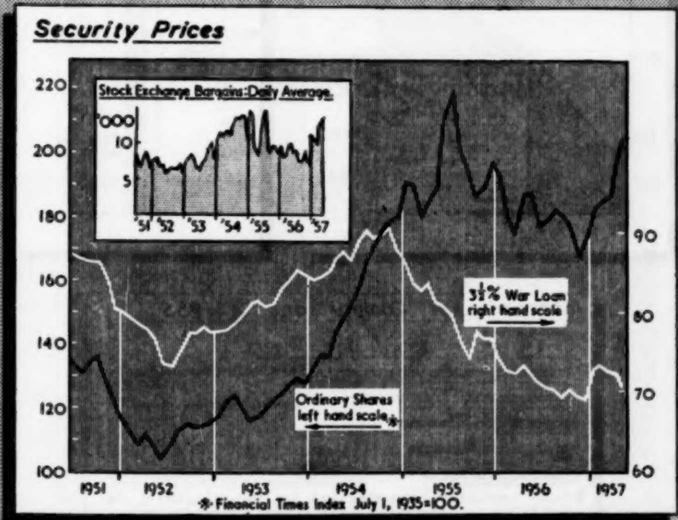
* *Political Quarterly*, October, 1956

J. Wiseman

The London School of Economics.
June, 1957.

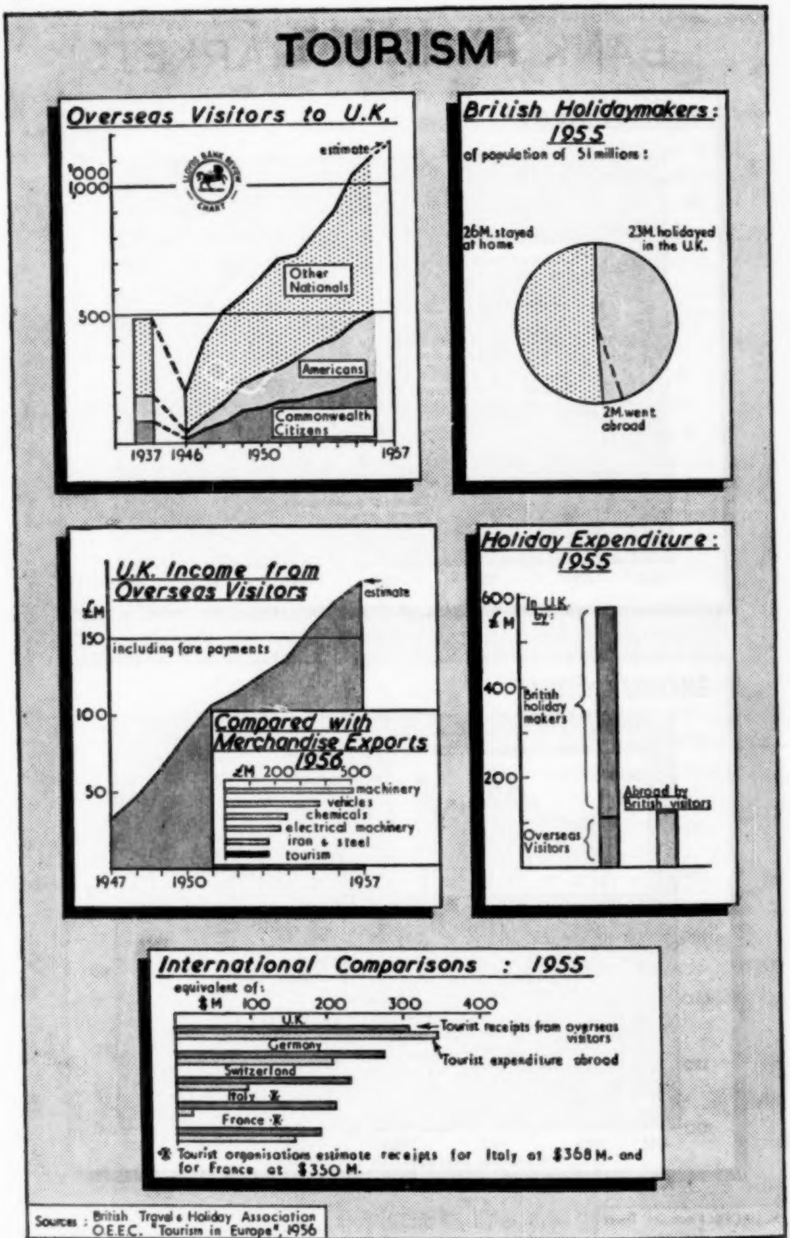
BANK RATE & MARKETS





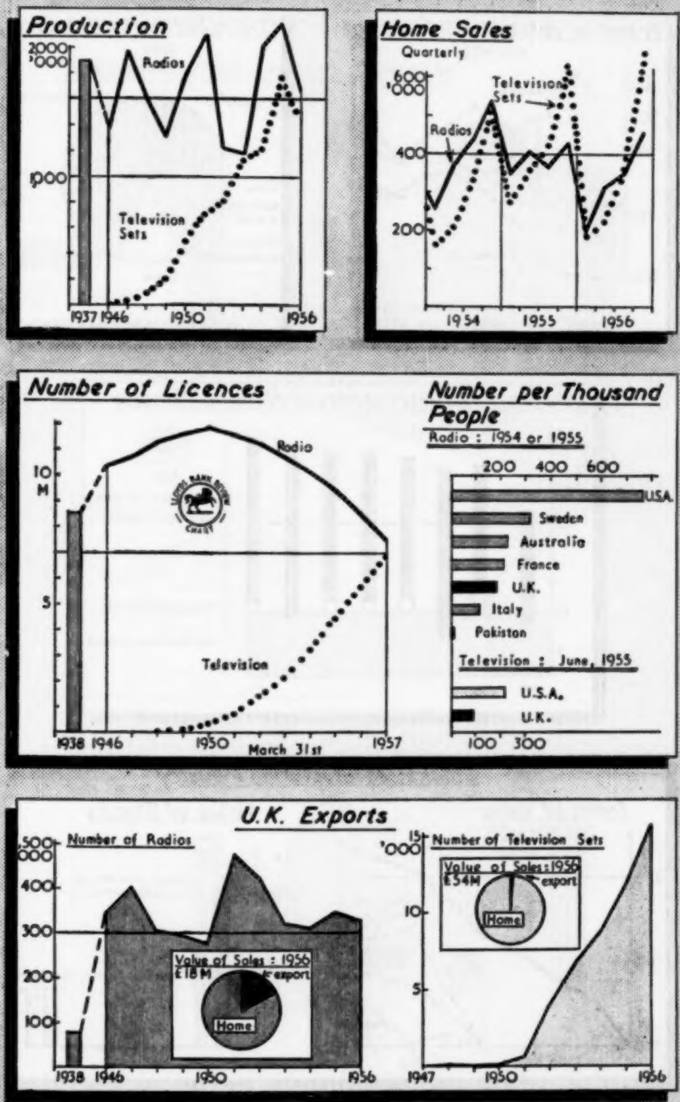
SOURCES: Financial Times
Economist

The above charts depict the movements in interest rates and security prices since the first post-war change in Bank Rate in November, 1951. Note the contrast in recent months between the sharp fall in Treasury bill rate and the rising Consols yield.



With more than a million overseas visitors, our tourist industry ranks now as a major earner of foreign exchange. Tourist income from American visitors last year, for example, approached £50 m. including fares, substantially greater than the proceeds of any single category of merchandise exports.

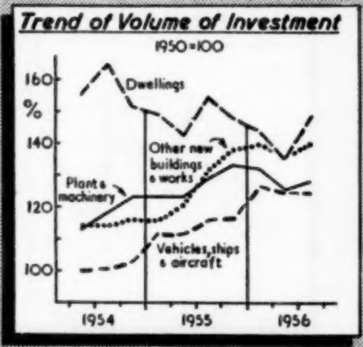
RADIO

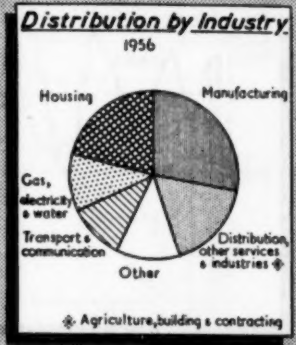


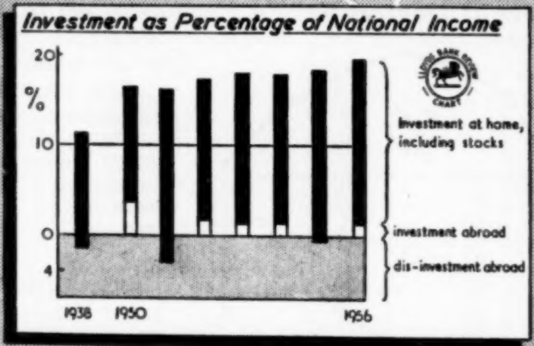
SOURCES: Monthly Digest of Statistics
Annual Abstract of Statistics
Unesco "Basic Facts & Figures"

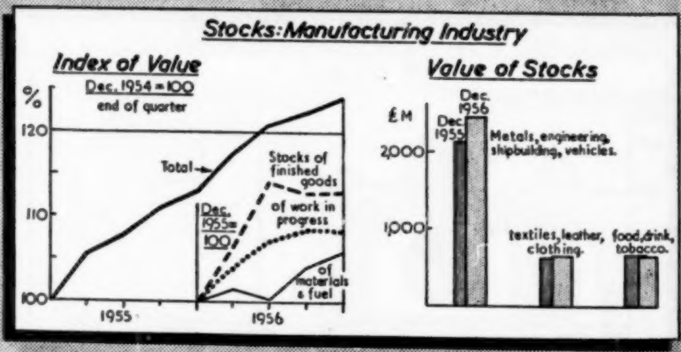
Home sales of television sets and radios have recovered from the set-back during the first half of last year, and at the end of March the total of T.V. licences almost equalled that for radio only. Relative to population we have about half as many T.V. sets as the Americans.

INVESTMENT







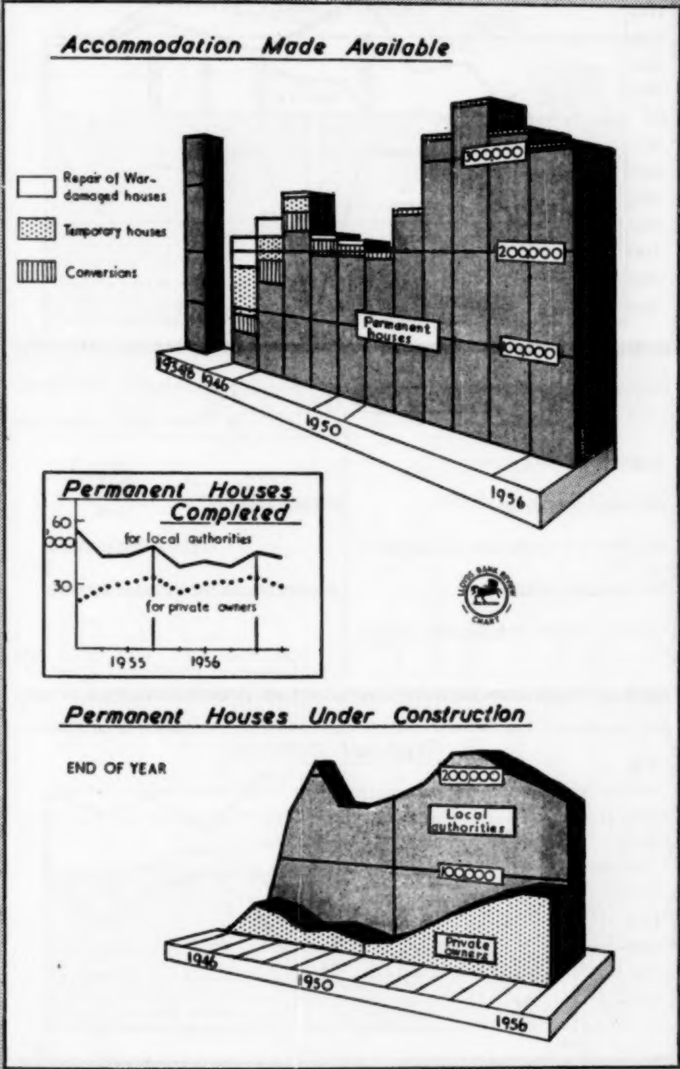


SOURCES: Economic Trends
National Income Publications
Board of Trade Journal

While the volume of fixed investment rose again last year, the increase of 3 per cent. was only about half that recorded in 1955. In recent years a growing proportion of our resources has been devoted to investment at home and abroad.

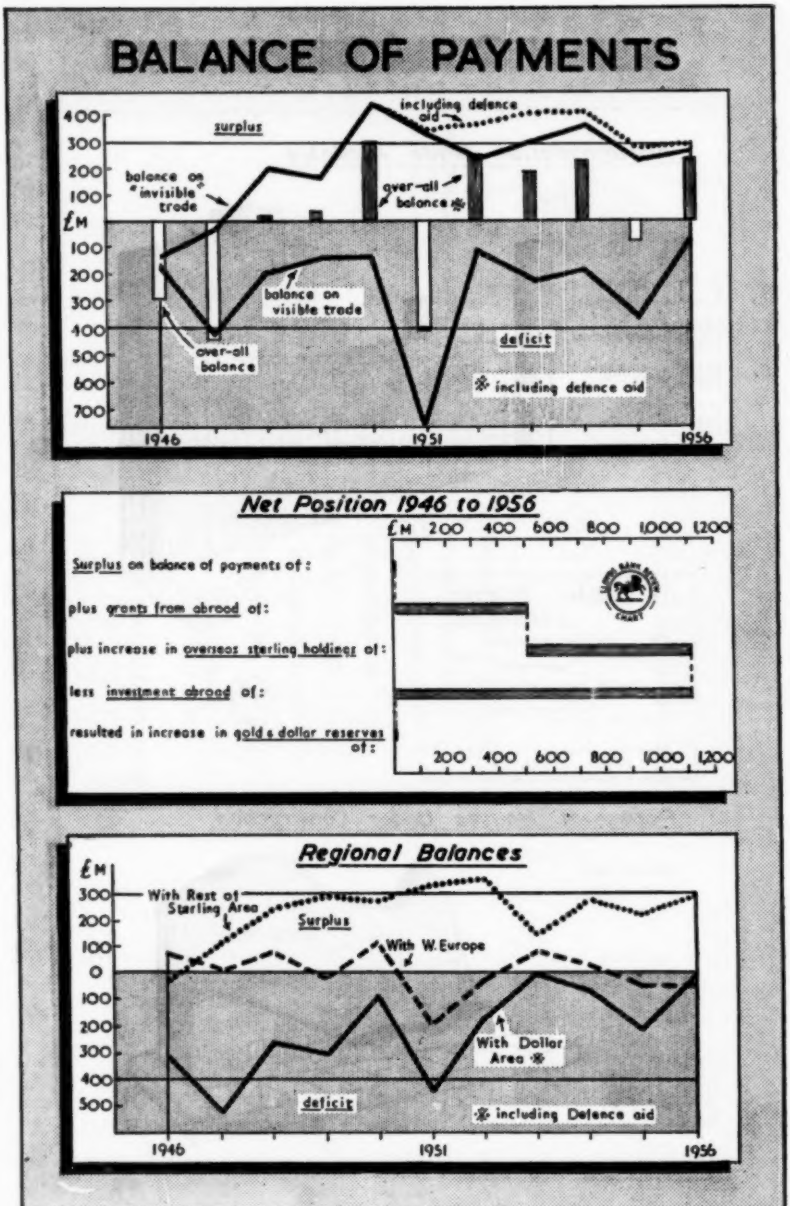
HOUSING

GT. BRITAIN



SOURCES: Monthly Digest and Annual Abstract of Statistics
Housing Returns

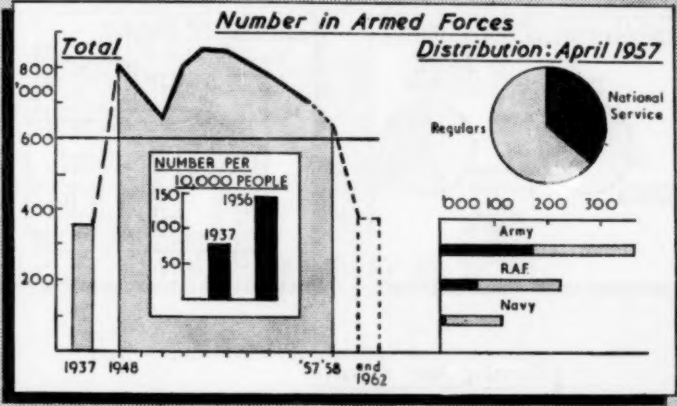
In 1956 just over 300,000 permanent houses were completed in Great Britain, some 60,000 fewer than the average in the late 'thirties. In the last few years, houses built for private owners have represented an increasing proportion of the total—41 per cent. last year, against 14 per cent. in 1952.

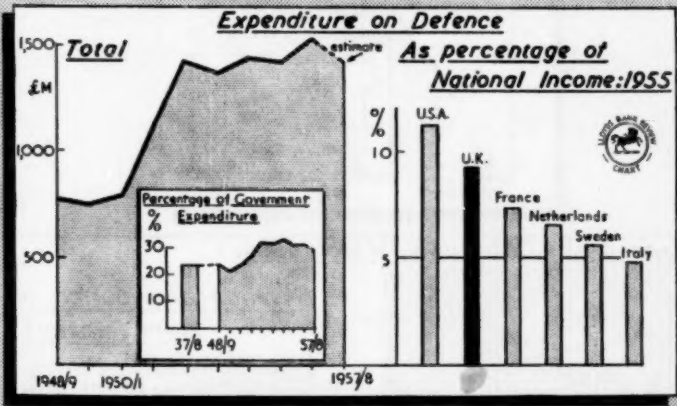


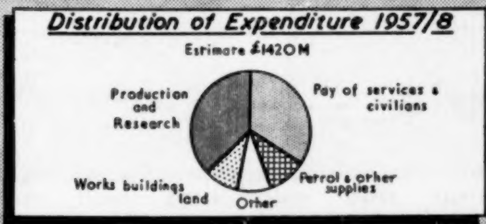
SOURCE: Balance of Payments White Paper April, 1957.

In the eleven years 1946–1956 our balance of payments showed a net surplus of only £5 m., though the position has been appreciably better since 1950. In the period 1946–49 the net *deficit* totalled £709 m., compared with a net *surplus* in the seven years 1950–56 of £714 m.

DEFENCE



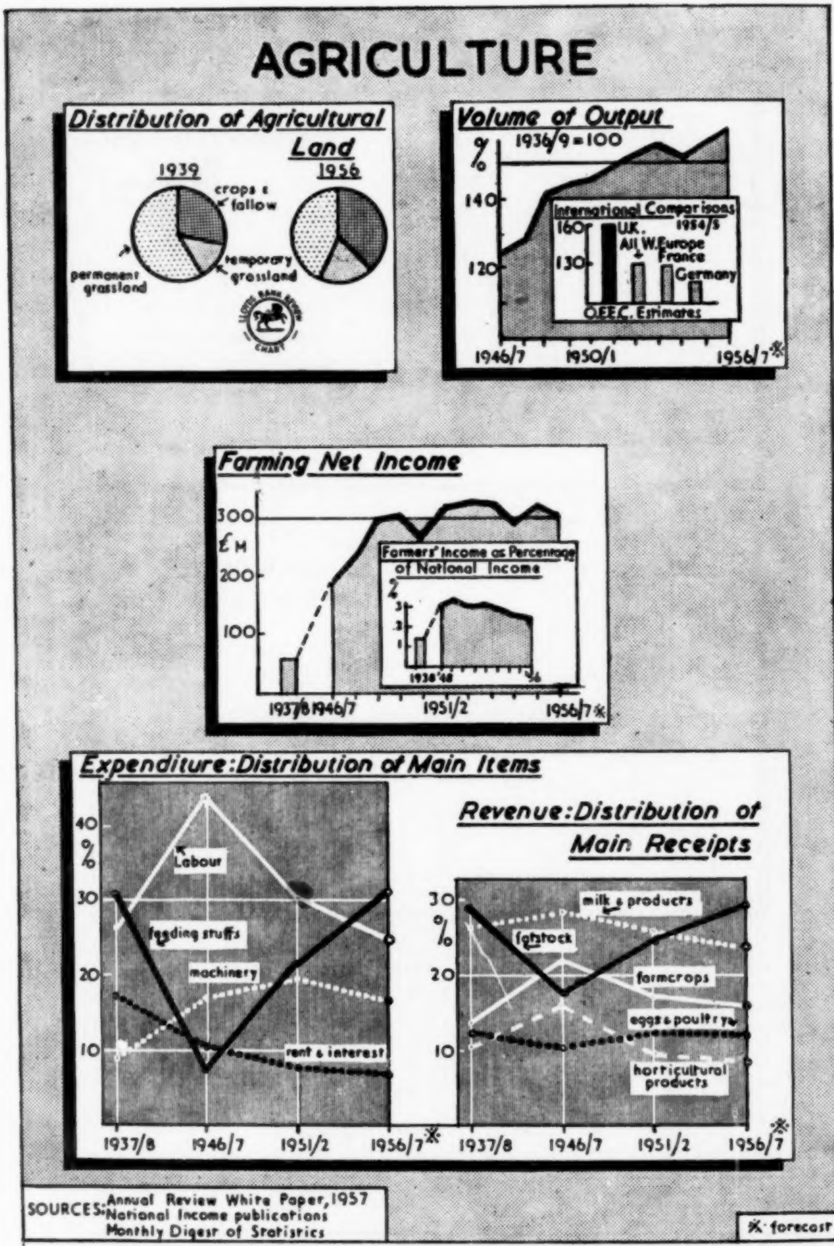




SOURCES: Defence White Papers
Financial Statements
O.E.E.C. Statistical Bulletin

Note: Top chart excludes Women's Services, which numbered 15,200 in April, 1957

By the end of 1962 it is envisaged that defence manpower, on an all-regular basis, should be reduced to not much more than half the present number serving. Expenditure, however, is not expected to show a decline in any way comparable.



Agricultural output in 1956/7 should be about three-fifths greater than pre-war. In relation to national income, farm income has been falling for some years, although it remains well above the 1938 level.

Printed by
Mardon, Son & Hall, Ltd.,
Bristol, England.